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SUBJECT: LATEST EMBASSY MEETINGS ON ECONOMIC REFORM

REF: A. (A) ANKARA 326
[1](#)B. (B) ANKARA 301

[1](#)1. (SBU) Embassy pressed the economic reform message January 16-17 in meetings with State Planning Under Secretary Ahmet Tiktik, Parliamentary Budget Committee Chairman Sait Acba, and AK Parliamentarian (and former Finance Minister official) Bulent Gidikli. In each of the meetings, we noted that we, the IMF, the World Bank, and -- most importantly -- the markets shared serious concerns about the direction of the government's economic policy. We also reiterated that any U.S. assistance related to Iraq would be conditioned on Turkish implementation of the reform program and, in any case, could not substitute for sound policy.

[1](#)2. (SBU) Tiktik, Acba and Gidikli all argued that the government was fully committed to economic reform, would avoid populist spending policies, and was moving in the right direction. Acba argued that the markets had confidence in the government, and blamed concerns about Iraq for the recent market decline. We pointed to the government's spending measures, movement to pass a tax "truce," and effort to gut the public procurement law as examples of steps in the wrong direction that undermined market confidence and raised serious questions about the ability of the IMF and World Bank to disburse. AK still had a chance to recapture market confidence and restore the post-election momentum, but it needed to move quickly and wisely. Turkey's enormous debt burden, we warned, meant there was little room for error.

[1](#)3. (SBU) Tiktik agreed that the government had to reach the 6.5 percent of GNP primary surplus target, and said Prime Minister Gul would chair a January 18 meeting of the High Planning Council to consider specific fiscal measures to achieve that goal. Acba and Gidikli echoed the commitment to the primary surplus, but stressed the need to address "social problems." They also defended proposed amendments to the procurement law, saying they were necessary to fix flaws that made the law inoperable. We responded that we understood the desire to help the poor, but that spending measures such as increasing civil service pensions did not help the poor (who do not receive pensions). We also noted that the investor community, World Bank, IMF, and the EU all strongly opposed the proposed amendments to the procurement law.

[1](#)4. (SBU) Comment: Embassy will continue to deliver the economic reform message to senior officials, party members and parliamentarians in the days ahead. We note some positive developments in recent days, such as new fiscal measures and an ambitious privatization program, but do not yet see any signs of a turnaround on other problem areas such as the procurement law and tax truce. Also, there remains a disturbing gap between AK's "all is well, we are committed to reform" rhetoric and its actions.

PEARSON